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SUBJECT: DUAL LABOR MARKET ROOT OF PROBLEMS, NEEDED REFORM,
SAYS ECONOMIST

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Summary

1. (SBU) The split between "regular" and "non-regular" workers is key to understanding Japanese labor market weaknesses and the need for change, a leading labor economist told econoffs. Japan's social safety net was built for the regular, career workforce in a model that worked from the 1950s through Japan's high-growth decades. Economic stagnation in the 1990s changed underlying conditions, however, and labor market institutions have not kept pace. Unfortunately, many politicians fundamentally misunderstand the structural shift and, the former Council on Economic and Fiscal Policy expert noted, what needs to be done about it. End summary.

Duality of the Labor Market

2. (SBU) The split between "regular" and "non-regular" workers is key to understanding Japanese labor market weaknesses and needed policy responses, International Christian University labor market economist and former Council on Economic and Fiscal Policy (CEFP) member Naohiro Yashiro told econoffs during recent meetings. Contrary to the belief currently popular in Japan, the part-time, temporary, and contract non-regular workforce did not begin under the 2001-2006 Koizumi administration's structural reform drive.

3. (SBU) The duality of the labor market goes back to the 1950s, when non-regular workers were mostly married women seeking to supplement household income. Yashiro explained Japan's social safety net was built for that market, with few pension and unemployment benefits provided to non-regular workers. The idea was households could absorb the layoffs of non-regular workers, because heads-of-household typically received benefits and safety net coverage through a regular job.

4. (SBU) Moreover, Japan's high-growth decades made

companies' focus on regular workers and labor stability an economically rational example of profit-seeking behavior. High growth rates correlate with short recessions, said Yashiro. Therefore, maintaining excess employment during recession periods was a good investment, given the payoff that came during boom times. Laying off workers and training new ones, after all, entail both monetary and opportunity costs for companies.

Economic Changes Not Matched by Institutions, Policy

15. (SBU) The underlying conditions that made the model work changed with Japan's economic stagnation in the 1990s and subsequent weak growth. Companies' profit motivation is no different, said Yashiro, but the number of those with high enough growth to support the regular worker model has declined. The number of non-regular workers as a percentage of the workforce has gone from 16 percent in 1985 to 34 percent today.

16. (SBU) The real problem, Yashiro concluded, is that Japan's social safety net, institutions, and labor policies have not changed to match economic reality. At more than one-third of the workforce, many non-regular workers today are heads-of-household, yet they often do not qualify for unemployment benefits. When they do qualify, they receive smaller and shorter payouts, because the program is set up like a pension and rewards longevity at a single company. Thus, a non-regular worker can fall through the holes in the safety net after a layoff and plunge into a precarious

TOKYO 00000514 002 OF 002

financial situation. If the worker is the head of a household, a whole family can be dragged down.

Politicians "Totally Misunderstand" Situation

17. (SBU) Many politicians, in both the ruling Liberal Democratic Party (LDP) and opposition Democratic Party of Japan (DPJ), "totally misunderstand" the situation, said Yashiro. Those politicians have sought to tie the rise in non-regular employees to former PM Koizumi's structural reform drive, deregulation, and "excessive market fundamentalism." They, along with some union members and company managers, are nostalgic for the Japan-as-Number-One 1980s. However, they do not understand it is impossible to regulate into existence a workforce model that depended on at least four-to-five percent annual economic growth.

18. (SBU) Recent legislation to expand the scope of Japan's unemployment scheme therefore will have little impact, said Yashiro. Reducing the time it takes to become vested in the system will increase access for non-regular workers, but the pension-like structure of the system still means non-regular workers will receive far less in unemployment benefits than their regular counterparts. Yashiro also asserted that labor unions are fighting against greater payments to non-regular workers because they are trying to protect the amounts of funds available for their own members.

19. (SBU) Despite his downbeat assessment of labor institutions, Yashiro suggested there is hope. He noted Japan's last serious economic downturn had resulted in PM Koizumi's election, and he argued neither the LDP nor DPJ is courting the many "discouraged" Japanese who favor reform. Perhaps the current economic crisis, he suggested, will spur needed change to labor market institutions.

Comment

110. (SBU) We admire the clarity of Yashiro's economic analysis, but note he is an inveterate optimist about reform.

ZUMWALT